

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-033
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

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Audit Chief
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Auditor

AUDIT REPORT NUMBER

#09-033

34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Seab McDonald, President
Board of Directors
34th DAA, Modoc District Fair
P.O. Box 26
Cedarville, California 96104

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 34th District Agricultural Association (DAA), Modoc District Fair, Cedarville, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 34th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 34th DAA, Modoc District Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 34th DAA, Modoc District Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-033, on the 34th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 34th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.


for Ron Shackelford, CPA
Chief, Audit Office

March 19, 2009

**34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

| | Account Number | 2008 | 2007 |
|--|---------------------------|-------------------|-------------------|
| ASSETS | | | |
| Cash & Cash Equivalents | 111-119 | \$ 167,927 | \$ 151,509 |
| Accounts Receivable, Net | 131-133 | 7,046 | 2,852 |
| Construction in Progress | 190 | - | 3,313 |
| Land | 191 | 600 | 600 |
| Buildings and Improvements, Net | 192 | 496,684 | 325,666 |
| Equipment | 193 | 5,916 | - |
| TOTAL ASSETS | | 678,172 | 483,940 |
| LIABILITIES AND NET RESOURCES | | | |
| Liabilities | | | |
| Accounts Payable and Other Liabilities | 211-226 | 2,980 | 3,803 |
| Deferred Income | 228 | 86,961 | 61,848 |
| Guaranteed Deposits | 241 | 400 | - |
| Compensated Absences Liability | 245 | 22,618 | 22,186 |
| Total Liabilities | | 112,959 | 87,836 |
| Net Resources | | | |
| Net Resources - Operations | 291 | 62,014 | 69,837 |
| Net Resources - Capital Assets less Related Debt | 291.1 | 503,200 | 326,266 |
| Total Net Resources Available | | 565,213 | 396,103 |
| TOTAL LIABILITIES AND NET RESOURCES | | \$ 678,172 | \$ 483,940 |

**34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

| | <u>Account Number</u> | <u>2008</u> | <u>2007</u> |
|---|---------------------------|--------------------------|--------------------------|
| REVENUE | | | |
| State Apportionments | 312 | \$ 180,000 | \$ 180,000 |
| Capital Project Reimbursement Funds | 319 | 21,996 | 30,876 |
| Other Contributions | 330 | 7,613 | 10,174 |
| Other Capital Projects - F&E Funded | 340 | 10,889 | 24,444 |
| Admissions | 410 | 17,931 | 19,258 |
| Commercial Space | 415 | 4,500 | 4,750 |
| Carnival | 421 | 1,170 | 431 |
| Food Concessions | 422 | 12,081 | 10,790 |
| Exhibits | 430 | 9,940 | 9,116 |
| Horse Show Revenue | 440 | 30,299 | 30,974 |
| Attractions - Fairtime | 460 | 35,343 | 29,601 |
| Miscellaneous Fair | 470 | 3,265 | 2,215 |
| Non-Fair Revenue | 480 | 27,387 | 24,215 |
| Other Revenue | 495 | 8,646 | 11,513 |
| Total Revenue | | <u>371,060</u> | <u>388,358</u> |
| EXPENSES | | | |
| Administration | 500 | 99,273 | 103,092 |
| Maintenance and Operations | 520 | 117,906 | 113,467 |
| Publicity | 540 | 12,014 | 11,402 |
| Attendance | 560 | 9,056 | 7,157 |
| Miscellaneous Fair | 570 | 12,336 | 4,267 |
| Premiums | 580 | 14,937 | 15,883 |
| Exhibits | 630 | 7,855 | 8,490 |
| Horse Show | 640 | 28,176 | 27,351 |
| Fairtime Attractions, Interim Attractions | 660 | 45,704 | 38,003 |
| Equipment | 723 | 5,000 | - |
| Prior Year Adjustments | 800 | (196,785) | - |
| Cash Over/Short from Ticket Sales | 850 | (6) | (4) |
| Depreciation Expense | 900 | 27,300 | 15,698 |
| Other Operating Expense | 940 | 19,184 | 34,619 |
| Total Expenses | | <u>201,950</u> | <u>379,426</u> |
| RESOURCES | | | |
| Net Change - Income / (Loss) | | 169,110 | 8,932 |
| Resources Available, January 1 | | 396,103 | 387,170 |
| Resources Available, December 31 | | <u>\$ 565,213</u> | <u>\$ 396,103</u> |

**34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

| | <u>2008</u> | <u>2007</u> |
|--|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of Revenue Over Expenses (Expenses Over Revenue) | \$ 169,110 | \$ 8,932 |
| Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities: | | |
| (Increase) Decrease in Accounts Receivable | (4,194) | (1,696) |
| Increase (Decrease) in Accounts & Other Payables | (823) | 3,262 |
| Increase (Decrease) in Deferred Income | 25,114 | 14,935 |
| Increase (Decrease) in Compensated Absence Liability | 432 | (19,066) |
| Increase (Decrease) in Guarantee Deposits | 400 | (800) |
| Total Adjustments | <u>20,928</u> | <u>(3,366)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>190,038</u> | <u>5,567</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| (Increase) Decrease in Construction in Progress | 3,313 | (3,313) |
| (Increase) Decrease in Buildings & Improvements, Net | (171,018) | (4,301) |
| (Increase) Decrease in Equipment, Net | <u>(5,916)</u> | <u>-</u> |
| Net Cash Provided (Used) by Investing Activities | <u>(173,621)</u> | <u>(7,614)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (Decrease) in Long-Term Liability | <u>-</u> | <u>-</u> |
| Net Cash Provided (Used) by Financing Activities | <u>-</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH | 16,417 | (2,047) |
| Cash at Beginning of Year | 151,509 | 153,556 |
| CASH AT END OF YEAR | <u><u>\$ 167,927</u></u> | <u><u>\$ 151,509</u></u> |

**34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 34th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Modoc District Fair in Cedarville, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional

guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not

determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|------------------------------|------------------------------|
| Petty Cash/Change Fund | \$ 200 | \$ 200 |
| Cash in Bank - Operating | 12 | 9,508 |
| Cash in Bank - Payroll | 4,000 | 4,000 |
| Cash in Bank - Investment & Savings | <u>163,715</u> | <u>137,802</u> |
| Total Cash and Cash Equivalents | <u><u>\$ 167,927</u></u> | <u><u>\$ 151,510</u></u> |

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

| | <u>2008</u> | <u>2007</u> |
|---------------------------------|----------------------------|----------------------------|
| Accounts Receivable | \$ 7,046 | \$ 2,852 |
| Allowance for Doubtful Accounts | <u>0</u> | <u>0</u> |
| Accounts Receivable - Net | <u><u>\$ 7,046</u></u> | <u><u>\$ 2,852</u></u> |

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

| | <u><u>2008</u></u> | <u><u>2007</u></u> |
|--------------------------------|--------------------------|--------------------------|
| Building & Improvements | \$1,587,817 | \$1,562,876 |
| Less: Accumulated Depreciation | <u>(1,091,133)</u> | <u>(1,237,209)</u> |
| Building & Improvements - Net | <u><u>\$ 496,684</u></u> | <u><u>\$ 325,667</u></u> |
| Equipment | \$ 107,768 | \$ 100,373 |
| Less: Accumulated Depreciation | <u>(101,852)</u> | <u>(100,373)</u> |
| Equipment - Net | <u><u>\$ 5,816</u></u> | <u><u>\$ 0</u></u> |

NOTE 6 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement

plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA**

REPORT DISTRIBUTION

| <u>Number</u> | <u>Recipient</u> |
|---------------|---|
| 1 | President, 34th DAA Board of Directors |
| 1 | Chief Executive Officer, 34th DAA |
| 1 | Director, Division of Fairs and Expositions |
| 1 | Chief Counsel, CDFA Legal Office |
| 1 | Chief, CDFA Audit Office |

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA

MANAGEMENT REPORT #09-033

YEAR ENDED DECEMBER 31, 2008

34TH DISTRICT AGRICULTURAL ASSOCIATION
MODOC DISTRICT FAIR
CEDARVILLE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Harvey Hunter, CPA

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-033

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Seab McDonald, President
Board of Directors
34th DAA, Modoc District Fair
P.O. Box 26
Cedarville, California 96104

In planning and performing our audit of the financial statements of the 34th District Agricultural Association (DAA), Modoc District Fair, Cedarville, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Modoc District Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 34th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 34th DAA's assets. The system of internal control



should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 34th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 34th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 34th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 34th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that we considered weaknesses in the Fair's operations: accounting for fixed assets, and sponsorship agreements. We have provided two recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 34th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

An audit of the Fair's accounting for fixed assets identified that the Fair did not correctly account for all fixed asset transactions prior to closing its accounting records and preparing their annual statement of operations (STOP). Our office noted the Fair's depreciation schedule contained errors resulting in the understatement to Account #192, Buildings and Improvements, totaling \$24,941 and the overstatement to Account #193, Accumulated Depreciation – Buildings and Improvements, totaling \$160,766. Some errors included the incorrect year some assets were placed into service, in addition to capital costs from various years depreciated using a single year base.

Recommendation

- 1. The Fair should make the necessary correcting journal entries that will ensure the amounts accounted for fixed assets are fairly stated in the general ledger. In the future, the Fair should review and adjust the depreciation schedule accordingly to ensure that all calculations for fixed assets are accurate and correct prior to closing the accounting period and preparing the year-ending Statement of Operations.*

SPONSORSHIP AGREEMENTS

The Fair's Board of Directors had not established policies and procedures for entering into sponsorship agreements and the securing of sponsorships, as required by the Division of Fairs and Expositions (F&E) Contracts Manual, Chapter 6 § 6.25. According to the F&E Contracts Manual the process to follow is: a) DAA Boards establish "procedures" for entering into sponsorship agreements, b) each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office, c) the DAA then follows the sponsorship procedures set by their Board, d) these procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contracts Manual requirements or F&E approval. They are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1 (b) does require F&E pre-approval of sponsorship contracts that exceed \$100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property.

Recommendation

- 2. The Fair Board of Directors should comply with the F&E Contracts Manual and establish policies and procedures for entering and securing sponsorship agreements.*

NON-REPORTABLE CONDITIONS

INDEPENDENT CONTRACTORS

The Fair did not prepare and submit the DE 542, Report of Independent Contractors, to the Employment Development Department (EDD) as required. Information contained on the form is used to assist the state and county agencies in locating parents who are delinquent in their child support obligations. This report is to be submitted to the EDD within 20 days of paying/contracting for \$600 or more in services received by the DAA.

Recommendation

The Fair should ensure that the DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for \$600 or more in services.

STANDARD AGREEMENTS

The Fair did not include Exhibit C, General Terms and Conditions form (GTC 307) in each personal service contract as required by the F&E approved contracts manual. This form contains the "Termination for Cause" language. In addition, personal service contracts do not contain the recommended "Termination without Cause" clause that allows a DAA to terminate the contract without cause.

The Fair also did not submit on a quarterly basis, a report listing all contracts processed during that quarter to F&E as required by the contracts manual. This includes standard agreements, rental agreements, and amendments.

Recommendations

The Fair should ensure that all personal service contracts contain required and recommended termination clauses.

The Fair should ensure that a quarterly report listing all contracts processed during the quarter is submitted to F&E.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

MODOC DISTRICT FAIR

*P.O. Box 26 Cedarville, CA 96104
(530) 279-2315 Office (530) 279-2555 Fax
mdocfair@hdo.net email*

Dannette DePaul, Manager

May 27, 2008

Audit Office
Department of Food and Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Re: Audit Response – 34th DAA

Following is the 34th District Agricultural Association's response to the 2008 Audit Report for Reportable Conditions:

ACCOUNTING FOR FIXED ASSETS

Finding: The Fair should make the necessary correcting journal entries that will ensure the amounts accounted for fixed assets are fairly stated in the general ledger. In the future, the Fair should review and adjust the depreciation schedule accordingly to ensure that all calculations for fixed assets are accurate and correct prior to closing the accounting period and preparing the year-ending Statement of Operations.

Response: The Fair will make the necessary correcting journal entries that will ensure the amounts accounted for fixed assets are correctly stated in the general ledger. The Fair will review and adjust the depreciation schedule accordingly to ensure that all calculations for fixed assets are accurate and correct prior to year end closing.

SPONSORSHIP AGREEMENTS

Finding: The Fair Board of Directors should comply with the F&E Contracts Manual and establish policies and procedures for entering and securing sponsorship agreements.

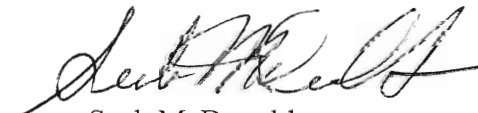
Response: The Fair Board of Directors approved a Sponsorship Policy effective April 28, 2009, that complies with the F&E Contracts Manual.

If you have any questions, or need additional information, please do not hesitate to contact me.

Sincerely,



Dannette E. DePaul
Manager



Seab McDonald
President, Board of Directors

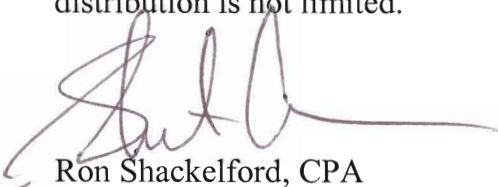
C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 34th DAA, Modoc District Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between March 9, 2009 and March 19, 2009. My staff met with management on March 19, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
For Chief, Audit Office

March 19, 2009

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